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8 IN THE UNITED STATES DISTRICT COURT  
9 FOR THE EASTERN DISTRICT OF CALIFORNIA  
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11 PHILIP MORRIS USA, INC., NO. CIV.S-06-0133 WBS DAD

12 Plaintiff,

13 v.

FINDINGS AND RECOMMENDATIONS

14 M&S MARKET, INC., et al.,

15 Defendants.  
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17 This matter came before the court on October 20, 2006, for  
18 hearing on plaintiff's motion for entry of default judgment against  
19 defendants Roy Keltner, individually and doing business as London  
20 General Store -- Dinuba; M&S Market, Inc., a California Corporation;  
21 and Bengals, Inc., a California Corporation doing business as Old  
22 Towne Food Market. Anna S. McLean and Nathaniel Moore appeared on  
23 behalf of plaintiff. There was no appearance on behalf of  
24 defendants. Having considered all written materials submitted with  
25 respect to the motion, and after hearing oral argument, for the

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1 reasons set forth below the undersigned recommends that plaintiff's  
2 motion be granted.

3 **PROCEDURAL BACKGROUND**

4 Plaintiff Phillip Morris USA, Inc. initiated this action  
5 for damages and injunctive relief by filing its complaint on January  
6 19, 2006. The complaint alleges trademark infringement in violation  
7 of the Lanham Act and unfair competition in violation of California  
8 state law. Despite being served with process, the defendants against  
9 whom default judgment is now sought failed to appear. The Clerk of  
10 the Court has entered default against each of those defendants  
11 pursuant to plaintiff's request. On September 19, 2006, plaintiff  
12 filed the instant motion, noticing it to be heard before the  
13 undersigned, as provided by Local Rule 72-302(c)(19). Despite being  
14 served with all moving papers, defendants have not responded to the  
15 motion.

16 **LEGAL STANDARD**

17 Federal Rule of Civil Procedure 55(b)(2) governs  
18 applications to the court for entry of default judgment. Upon entry  
19 of default, the complaint's factual allegations regarding liability  
20 are taken as true, while allegations regarding the amount of damages  
21 must be proven. Dundee Cement Co. v. Howard Pipe & Concrete  
22 Products, 722 F.2d 1319, 1323 (7th Cir. 1983) (citing Geddes v. United  
23 Fin. Group, 559 F.2d 557 (9th Cir. 1977)); see also TeleVideo Sys.,  
24 Inc. v. Heidenthal, 826 F.2d 915, 917 (9th Cir. 1987). It is  
25 improper for the court to consider liability issues without first  
26 providing notice to plaintiff that the merits will be addressed.

1 Black v. Lane, 22 F.3d 1395, 1398 (7th Cir. 1994). Where damages are  
2 liquidated (i.e., capable of ascertainment from definite figures  
3 contained in the documentary evidence or in detailed affidavits),  
4 judgment by default may be entered without a damages hearing. See  
5 Dundee, 722 F.2d at 1323. Unliquidated and punitive damages,  
6 however, require "proving up" at an evidentiary hearing or through  
7 other means. Dundee, 722 F.2d at 1323-24; see also James v. Frame,  
8 6 F.3d 307, 310 (5th Cir. 1993).

9 Granting or denying default judgment is within the court's  
10 sound discretion, see Draper v. Coombs, 792 F.2d 915, 924-25 (9th  
11 Cir. 1986) (citations omitted), and the court is free to consider a  
12 variety of factors in exercising that discretion, see Eitel v.  
13 McCool, 782 F.2d 1470, 1471-72 (9th Cir. 1986). The court may  
14 consider such factors as:

15 (1) the possibility of prejudice to the  
16 plaintiff, (2) the merits of plaintiff's  
17 substantive claim, (3) the sufficiency of the  
18 complaint, (4) the sum of money at stake in the  
19 action, (5) the possibility of a dispute  
20 concerning material facts, (6) whether the  
21 default was due to excusable neglect, and (7) the  
22 strong policy underlying the Federal Rules of  
23 Civil Procedure favoring decisions on the merits.

24 Eitel, 782 F.2d at 1471-72 (citing 6 Moore's Federal Practice, ¶ 55-  
25 05[2], at 55-24 to 55-26).

#### 26 ANALYSIS

The complaint in this action alleges two claims for  
trademark infringement under the Lanham Act and a claim for unfair

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1 competition under California law.<sup>1</sup> In sum, the detailed allegations  
2 of the complaint allege that defendants have sold, offered for sale  
3 or otherwise contributed to the sale of counterfeit Marlboro and  
4 Marlboro Lights cigarettes. Plaintiff is in the business of  
5 manufacturing and selling tobacco products, including the famous  
6 Marlboro brand of cigarettes. Plaintiff's complaint names numerous  
7 defendants, but plaintiff presently seeks default judgment against  
8 defendants Roy Keltner; M&S Market, Inc.; and Bengals, Inc.  
9 Consistent with the prayer in that complaint, and as permitted by the  
10 Lanham Act, plaintiff's motion seeks an award of \$10,000 against each  
11 retailer implicated by the instant motion as well as permanent  
12 injunctive relief. Plaintiff also seeks recovery of reasonable  
13 attorney fees and costs.

14           Weighing the factors outlined in Eitel v. McCool, 782 F.2d  
15 at 1471-72, the undersigned has determined that default judgment  
16 against defendants is appropriate. Defendants have made no showing  
17 that their failure to respond to the complaint was due to excusable  
18 neglect. The complaint is sufficient, and the amount of money at  
19 stake is relatively small, particularly because plaintiff seeks only  
20 statutory damages, not the recovery of lost profits or actual  
21 damages. There is no reason to doubt the merits of plaintiff's  
22 substantive claim, nor is there any apparent possibility of a dispute  
23 concerning the material facts underlying the action. As these

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25           <sup>1</sup> Specifically, the complaint states claims for trademark  
26 infringement under 15 U.S.C. § 1114(1); false designation of origin  
under 15 U.S.C. § 1125(a); and unfair competition in violation of  
California common law.

1 factors weigh in plaintiff's favor, the undersigned, while  
2 recognizing the public policy favoring decisions on the merits, will  
3 recommend that default judgment be granted.

4       After determining that entry of default judgment is  
5 warranted, this court must next determine the terms of the judgment.  
6 As indicated above, plaintiff seeks an award of \$10,000 against  
7 defendants. Such an award is permitted by the Lanham Act, which  
8 provides for the election of statutory damages in a counterfeiting  
9 case in an amount "not less than \$500 or more than \$100,000 per  
10 counterfeit mark per type of goods or services sold, offered for  
11 sale, or distributed, as the court considers just[.]" 15 U.S.C.  
12 1117(c)(1). The plain language of 15 U.S.C. 1117(c) "affords  
13 plaintiffs the right to pursue statutory damages without proving  
14 actual damages; however, the statute does not provide guidelines for  
15 courts to use in determining an appropriate award." Louis Vuitton  
16 Malletier and Oakley, Inc. v. Veit, 211 F. Supp. 2d 567, 583 (E.D.  
17 Pa. 2002). See also Tiffany (NJ) Inc. v. Luban, 282 F. Supp. 2d 123,  
18 124-25 (S.D. N.Y. 2003) ("The statute 'does not provide guidelines for  
19 courts to use in determining an appropriate award' and is only  
20 limited by what 'the court considers just.'" (citations omitted).  
21 Some courts have found guidance in this regard in the case law of an  
22 analogous provision of the Copyright Act, 17 U.S.C. § 504(c). See  
23 Tiffany, 282 F. Supp. 2d at 125; Louis Vuitton, 211 F. Supp. 2d at  
24 583; Sara Lee Corp. v. Bags of N.Y., Inc., 36 F. Supp. 2d 161, 166  
25 (S.D. N.Y. 1999). Under the Copyright Act, courts consider factors  
26 such as:



1 (1) "the expenses saved and the profits reaped;"  
2 (2) "the revenues lost by the plaintiff;" (3)  
3 "the value of the copyright;" (4) "the deterrent  
4 effect on others besides the defendant;" (5)  
5 "whether the defendant's conduct was innocent or  
6 willful;" (6) "whether a defendant has cooperated  
7 in providing particular records from which to  
8 assess the value of the infringing material  
9 produced;" and (7) "the potential for  
10 discouraging the defendant."

11 Tiffany, 282 F. Supp. 2d at 125 (citing Fitzgerald Pub. Co., Inc. v.  
12 Baylor Pub. Co., 807 F. 2d 1110, 1117 (2d Cir. 1986)). See also  
13 Microsoft Corp. v. PC Exp., 183 F. Supp. 2d 448, 454 (D. P.R.  
14 2001) (listing same factors).

15 Looking to the relevant factors, no evidence submitted in  
16 connection with the instant motion addresses the expenses saved and  
17 profits reaped by defendants or the revenues lost by plaintiff.  
18 However, the undersigned recognizes that plaintiff is still  
19 discovering the extent of the counterfeiting and that such  
20 calculations would in any event be difficult in light of the nature  
21 of this action. As one court has recognized, "[t]he statutory  
22 damages provision was added in 1995 because 'counterfeiters' records  
23 are frequently nonexistent, inadequate, or deceptively kept ...,  
24 making proving actual damages in these cases extremely difficult if  
25 not impossible.'" Tiffany, 282 F. Supp. 2d at 124 (citations  
26 omitted).

27 With respect to the other factors, the undersigned finds  
28 that an award of \$10,000 will likely serve to deter each defendant as  
29 well as others. While the court has discretion to award up to  
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1 \$100,000 per counterfeit mark per type of goods or services sold,<sup>2</sup>  
2 the record suggests that the defendants against whom default judgment  
3 is now sought, as well as the other defendants in related actions on  
4 file in this district, are independent small business owners and/or  
5 operators. An award of \$10,000 is at least commensurate with the  
6 value of plaintiff's famous marks and also in line with defendants  
7 "blatant attempt to profit from Philip Morris USA's substantial  
8 investment in its Marlboro marks." (Compl. ¶ 5.) As outlined in  
9 plaintiff's motion, defendants have failed to cooperate with  
10 plaintiff in its efforts to litigate this matter, including attempts  
11 at settlement. For these reasons, the undersigned finds the  
12 requested award of \$10,000 is just.<sup>3</sup>

13 Plaintiff also is entitled to the requested permanent  
14 injunctive relief. Title 15 U.S.C. § 1116(a) provides, in relevant  
15 part, that "[t]he several courts vested with jurisdiction of civil  
16 actions arising under this chapter shall have power to grant  
17 injunctions, according to the principles of equity and upon such  
18 terms as the court may deem reasonable ...." In recommending entry  
19 of default judgment in similar actions initiated by this plaintiff,

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20  
21 <sup>2</sup> As plaintiff explains, and as alleged in the complaint, each  
22 of the two types of Marlboro cigarettes at issue in this case - Reds  
23 and Lights - contains two Philip Morris USA registered trademarks,  
24 one being the "MARLBORO mark" (i.e., the Marlboro name) and the other  
being the "MARLBORO Roof Design Label mark" (i.e., the Marlboro  
label). (Compl. ¶ 4.) Thus, for each pack of cigarettes bought from  
defendants, the court could award \$200,000 (i.e., \$100,000 for each  
of the two marks on each pack).

25 <sup>3</sup> An award of \$10,000 is also reasonable in light of the amount  
26 of damages awarded in other similar counterfeit cases. See Louis  
Vuitton, 211 F. Supp. 2d at 583-84 (collecting cases).

1 the undersigned previously has endorsed similar, although not  
2 identical, requests for injunctive relief. The district judge  
3 assigned to this case has approved similar requests, particularly in  
4 the various Consent Judgments and Permanent Injunctions approved by  
5 the court in this case. Accordingly, the undersigned will recommend  
6 that defendants be:

7 (1) prohibited from purchasing, selling, offering  
8 for sale, or otherwise using in commerce any  
9 counterfeit Marlboro or Marlboro Lights brand  
10 cigarettes;

11 (2) prohibited from assisting, aiding or abetting  
12 any other person or entity in purchasing,  
13 selling, offering for sale, or otherwise using in  
14 commerce any counterfeit Marlboro or Marlboro  
15 Lights brand cigarettes; and

16 (3) directed to cooperate in good faith with  
17 Philip Morris USA in future investigations of  
18 counterfeit cigarette sales at their retail  
19 establishments, including but not limited to (a)  
20 permitting representatives of an investigative  
21 firm under contract with Philip Morris USA to  
22 conduct inspections, without notice, of  
23 defendants' inventories to determine whether any  
cigarettes bearing the Marlboro and/or Marlboro  
Lights trademarks are counterfeit (such  
inspections may proceed at any defendants' retail  
outlet between the hours of 9:00 a.m. and 5:00  
p.m. on any day such retail outlet is open for  
business) and to retain possession of any such  
Marlboro and/or Marlboro Lights brand cigarettes  
determined to be counterfeit; (b) responding to  
reasonable requests for information about  
defendants' suppliers of Marlboro and/or Marlboro  
Lights cigarettes; and (c) cooperating with  
Philip Morris USA's representatives in their  
investigations of any suppliers of Marlboro  
and/or Marlboro Lights cigarettes.

24 See Levi Strauss & Co. v. Shilon, 121 F.3d 1309, 1314 (9th Cir.

25 1997) (affirming permanent injunction against using "any counterfeit,  
26 copy, or colorable imitations of the trademarks of Plaintiff Levi



1 Strauss & Co. that is likely to cause confusion"); PepsiCo, Inc. v.  
2 California Security Cans, 238 F. Supp. 2d 1172, 1177-78 (C.D. Cal.  
3 2002) (granting motion for default judgment and request for a  
4 permanent injunction enjoining defendant from using trademarks on  
5 counterfeit products).

6 Plaintiff seeks to recover reasonable attorney fees and  
7 costs incurred as a result of litigating this action against  
8 defendants. See 15 U.S.C. § 1117(a). Counsel for plaintiff has  
9 submitted declarations detailing the \$3,191.25 sought for attorney  
10 fees. The undersigned finds the rates customary and hours expended  
11 reasonable for litigating an action of this nature. See Intel Corp.  
12 v. Terabyte Int'l, Inc., 6 F.3d 614, 623 (9th Cir. 1993).

13 An award of attorney fees is warranted in this case. The  
14 Lanham Act authorizes the court to award attorney fees to the  
15 prevailing party in "exceptional cases." 15 U.S.C. § 1117(a).  
16 "While the term 'exceptional' is not defined in the statute,  
17 generally a trademark case is exceptional for purposes of an award of  
18 attorneys' fees when the infringement is malicious, fraudulent,  
19 deliberate or willful." Lindy Pen Co., Inc. v. Bic Pen Corp., 982  
20 F.2d 1400, 1409 (9th Cir. 1993). In the default judgment context,  
21 courts have found a case "exceptional" where, as here, the defendant  
22 disregards judicial proceedings and does not appear. See Discovery  
23 Communications, Inc. v. Animal Planet, Inc., 172 F. Supp. 2d 1282,  
24 1292 (C.D. Cal. 2001); Taylor Made Golf Co., Inc. v. Carsten Sports,  
25 Ltd., 175 F.R.D. 658, 663 (S.D. Cal. 1997). Accordingly, the

26 /////

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1 undersigned will recommended that plaintiff be awarded the requested  
2 attorney fees of \$3,191.25 as to each defendant.

3 Finally, plaintiff is entitled to the costs as to each  
4 defendant. 15 U.S.C. § 1117(a)(3) ("When a violation of any right of  
5 the registrant of a mark ... shall have been established in any civil  
6 action arising under this chapter, the plaintiff shall be entitled  
7 ... to recover ... the costs of the action."). Plaintiff has  
8 demonstrated reasonable service fees as to the defendants as follows:  
9 Roy Keltner, \$300; M&S Market, Inc., \$300; and Bengals, Inc., \$310.  
10 Accordingly, the undersigned will recommended that plaintiff be  
11 awarded the costs of this action.

#### 12 CONCLUSION

13 Accordingly, the court HEREBY RECOMMENDS that:

14 1. Plaintiff's motion for entry of default judgment be  
15 granted; and

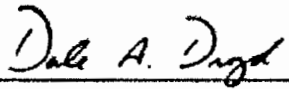
16 2. The district judge assigned to this case sign the  
17 [Proposed] Order for Default Judgments filed on October 19, 2006  
18 (Doc. no. 78).

19 These findings and recommendations are submitted to the  
20 United States District Judge assigned to the case pursuant to the  
21 provisions of 28 U.S.C. § 636(b)(1). Within ten days after being  
22 served with these findings and recommendations, any party may file  
23 written objections with the court and serve a copy on all parties.  
24 Such a document should be captioned "Objections to Findings and  
25 Recommendations." Any reply to the objections shall be served and  
26 filed within five days after service of the objections. The parties

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1 are advised that failure to file objections within the specified time  
2 may waive the right to appeal the District Court's order. Martinez  
3 v. Ylst, 951 F.2d 1153 (9th Cir. 1991).

4 DATED: November 15, 2006.

5   
6 \_\_\_\_\_  
7 DALE A. DROZD  
8 UNITED STATES MAGISTRATE JUDGE

8 DAD:th  
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